

421 West Main Street
Frankfort, KY 40601
(502) 223-3477
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RECEIVED

JUL 22 2014

PUBLIC SERVICE
COMMISSION

July 21, 2014

Mark R. Overstreet
(502) 209-1219
(502) 223-4387 FAX
moverstreet@stites.com

HAND DELIVERED

Jeff R. Derouen
Executive Director
Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40602-0615

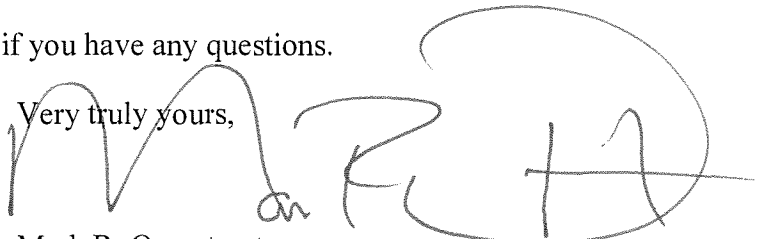
RE: Kentucky Power Company's Application For Deviation Of Asymmetrical Pricing Requirements – Case No. 2014-00__

Dear Mr. Derouen:

Enclosed please find and accept for filing the original and ten copies of Kentucky Power Company's application.

Please do not hesitate to contact me if you have any questions.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Mark R. Overstreet', with a large circular flourish at the end.

Mark R. Overstreet

MRO

cc: Jennifer B. Hans
Michael L. Kurtz

RECEIVED

JUL 22 2014

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of:

The Application Of Kentucky Power Company For)
(1) The Grant Of A Deviation From The Asymmetrical)
Pricing Requirements Of KRS 278.2207 In Connection)
With The Assignment To Appalachian Power) Case No. 2014-00____
Company By Kentucky Power Company Of Two)
Contracts For Delivery Of Coal; And (2) For All Other)
Required Approvals And Relief)

APPLICATION

Kentucky Power Company (“Kentucky Power” or the “Company”) moves the Public Service Commission of Kentucky (“Commission”) pursuant to KRS 278.2207(2) for an Order: (1) granting the Company, to the extent required, a deviation from the asymmetrical pricing requirements of KRS 278.2207 in connection with the assignment by Kentucky Power to Appalachian Power Company (“Appalachian Power”) at Kentucky Power’s cost of seven deliveries of coal; and (2) granting all other required relief or approvals. In support thereof Kentucky Power states:

INTRODUCTION

1. Effective April 30, 2014 Kentucky Power assigned to Appalachian Power seven deliveries of coal under three contracts. The assignments were required to avoid demurrage charges that would have been incurred as a result of the Company’s inability to unload the barges at the Mitchell generating station. At the time of the scheduled deliveries the barge unloader at the Mitchell generating station sustained a forced outage as a result of a broken head shaft.

2. The deliveries were assigned to Appalachian Power at Kentucky Power's cost, which was less than the market price. Absent the grant of the requested deviation, KRS 278.2207 may require that the seven deliveries be assigned at the higher market price. Kentucky Power seeks through this Application the deviation from the requirements of KRS 278.2207(1)(a) to the extent they are applicable to the assignments.

APPLICANT

3. Kentucky Power was organized in 1919 under the laws of the Commonwealth of Kentucky.¹ The Company's mailing address is 101A Enterprise Drive, P.O. Box 5190, Frankfort, Kentucky 40602-5190. Its electronic mail address is kentucky_regulatory_services@aep.com. Kentucky Power is engaged in the generation, purchase, transmission, distribution and sale of electric power. The Company serves approximately 173,000 retail customers in the following 20 counties of eastern Kentucky: Boyd, Breathitt, Carter, Clay, Elliott, Floyd, Greenup, Johnson, Knott, Lawrence, Leslie, Letcher, Lewis, Magoffin, Martin, Morgan, Owsley, Perry, Pike and Rowan. In addition, the Company also supplies electric power at wholesale to other utilities and municipalities in Kentucky for resale. Kentucky Power is a utility as that term is defined at KRS 278.010. [807 KAR 5:001, Section 14].

4. Kentucky Power is a direct, wholly-owned subsidiary of American Electric Power Company, Inc. Kentucky Power owns a fifty-percent undivided interest in the Mitchell generating station located near Moundsville, West Virginia.

¹ A certified copy of the Company's Articles of Incorporation and all amendments thereto was attached to the Joint Application in *In the Matter Of: The Joint Application Of Kentucky Power Company, American Electric Power Company, Inc. And Central And South West Corporation Regarding A Proposed Merger*, P.S.C. Case No. 99-149. The Company's July 21, 2014 Certificate of Existence is attached as **EXHIBIT 1**.

NON-PARTY ENTITY

5. Appalachian Power is a corporation organized under the laws of the Commonwealth of Virginia and provides electric utility service to approximately 1,000,000 retail customers in Virginia and West Virginia. Appalachian Power does not provide utility service in the Commonwealth of Kentucky and is not a utility subject to the provisions of Chapter 278 of the Kentucky Revised Statutes.

6. Appalachian Power is a direct, wholly-owned subsidiary of AEP, and as such is an affiliate of Kentucky Power as the term is defined at KRS 278.010(18), and as used in KRS 278.2207. Appalachian Power maintains an office at 707 Virginia Street East, Charleston, West Virginia 25301. Appalachian Power owns the Philip Sporn generating station located near New Haven, West Virginia, as well as the John E. Amos generating station located near Winfield, West Virginia.

THE SUBJECT CONTRACTS

7. Kentucky Power is a party to two Coal Purchase and Sale Agreements dated January 31, 2014 and March 18, 2014 with Trafigura AG. Under the terms of the agreements, Kentucky Power was to receive deliveries by barge of low-sulfur coal at the Company's Mitchell generating station during May 2014.

8. Kentucky Power also is a party to a Coal Contract with RWE Trading Americas Inc. dated March 10, 2014. Under the terms of the agreements, Kentucky Power was to receive deliveries by barge of low-sulfur coal at the Company's Mitchell generating station during May 2014.

9. Appalachian Power is a party to a separate Coal Purchase and Sale Agreement with Trafigura AG for the delivery to of low sulfur coal to, *inter alia*, Appalachian Power's Philip Sporn generating station.

10. Appalachian Power also is a party to a separate Coal Contract with RWE Trading Americas Inc. for the delivery to of low sulfur coal to, *inter alia*, Appalachian Power's Amos generating station.

THE DELIVERY ASSIGNMENTS

11. During May 2014, Kentucky Power was scheduled to receive under the three contracts seven deliveries of coal at its Mitchell generating station. Information regarding the seven deliveries is set forth in EXHIBIT 2 to this Application.

12. On April 30, 2014 the barge unloader at the Mitchell generating station suffered a forced outage as a result of a head shaft on the unloader breaking. The forced outage period lasted approximately six weeks.

13. The agreement for barge transportation services for the coal requires the payment by Kentucky Power of demurrage charges at the rate of \$100 per day per barge in the event the coal is not unloaded within a contractually-specified period.

14. As a result of the coal unloader forced outage, Kentucky Power sought to negotiate an agreement with the sellers whereby the coal scheduled delivery to the Mitchell generating station would be applied to "satisfy" Appalachian Power's obligations under its agreements with Trafigura and RWE Americas. When the Company was unable to reach an agreement with the sellers to do so, Kentucky Power assigned the seven deliveries under the

three agreements to Appalachian Power to avoid the demurrage charges that would have resulted from the forced outage. The coal was not sold by Kentucky Power to Appalachian Power. Instead, as a result of the assignments by Kentucky Power, Appalachian Power was invoiced by the sellers for the deliveries and Appalachian Power directly paid the sellers for the coal deliveries. A copy of the assignments is attached as EXHIBIT 3.

15. As set forth in EXHIBIT 2, the contract price for the assigned coal deliveries was slightly less than the \$61.35 per ton market price at the time of the assignments. As a result, and as set forth in more detail in EXHIBIT 2, the assignments to Appalachian Power by Kentucky Power were made at \$11,531.85 less than the higher of “cost” or market.

THE ASSIGNMENT OF THE DELIVERIES AT KENTUCKY POWER’S COST
IS REASONABLE AND THE DEVIATION IS IN THE PUBLIC INTEREST

16. As set forth in EXHIBIT 2, the assignment of the seven deliveries permitted Kentucky Power to avoid \$13,000 in demurrage costs. When the \$11,531.85 market differential is netted against the \$13,000 in avoided demurrage costs, the assignments yielded \$2,936.31 in net benefits. Kentucky Power’s 50% undivided interest in the net benefits was \$1,468.15.

17. Because Kentucky Power did not sell the coal deliveries to Appalachian Power, and did not receive any payments from Appalachian Power for the coal deliveries, it is unclear whether the assignments are governed by KRS 278.2207(1)(a). Nevertheless, to the extent the Commission concludes that the assignments constitute the provision of services and products by Kentucky Power to an affiliate, and thus are subject to KRS 278.2207(1)(a), the assignments at a \$1,468.15 net benefit to the Company were made at “reasonable pricing” as required by the statute. Similarly, any required deviation would be in the public interest for the same reason.

EXHIBITS

18. The exhibits listed in the Appendix to this Application are attached to and made a part of this Application.

Communications

19. The Applicant respectfully requests that communications in this matter be transmitted electronically to:

Mark R. Overstreet
STITES & HARBISON PLLC
moverstreet@stites.com

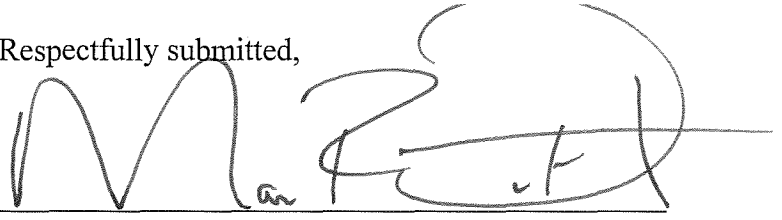
Kentucky Power Company
Kentucky_regulatory_services@aep.com

ON BEHALF OF KENTUCKY POWER

WHEREFORE, Kentucky Power Company requests that the Commission issue an Order:

1. Granting Kentucky Power, to the extent required, a deviation from the asymmetrical pricing requirements of KRS 278.2207(1)(a); and
2. Granting Kentucky Power all other relief to which it may be entitled.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Mark R. Overstreet', written over a horizontal line.

Mark R. Overstreet
STITES & HARBISON PLLC
421 West Main Street
P.O. Box 634
Frankfort, Kentucky 40602-0634
Telephone: (502) 223-3477
Facsimile: (502) 223-4387
moverstreet@stites.com

COUNSEL FOR:
KENTUCKY POWER COMPANY

LIST OF EXHIBITS

- EXHIBIT 1: The July, 21, 2014 Kentucky Power “Certificate of Existence” issued by the Secretary of State of the Commonwealth of Kentucky.
- EXHIBIT 2: Chart illustrating the particulars regarding the coal delivery assignments and the net benefit to Kentucky Power.
- EXHIBIT 3: Copies of the three assignments.

CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing was served as indicated below upon:

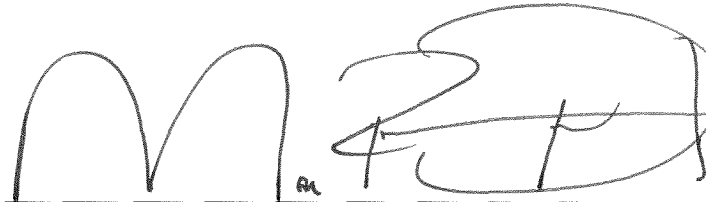
Michael L. Kurtz
Kurt J. Boehm
Jody Kyler Cohn
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202

By Overnight Delivery

Jennifer Black Hans
Angela M. Goad
Gregory T. Dutton
Office of Attorney General,
Office of Rate Intervention
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601-8204

By Overnight Delivery

on this the 21st day of July, 2014.

A handwritten signature in black ink, consisting of a stylized 'M' followed by 'R. Overstreet'.

Mark R. Overstreet

EXHIBIT 1

Commonwealth of Kentucky
Alison Lundergan Grimes, Secretary of State

Alison Lundergan Grimes
Secretary of State
P. O. Box 718
Frankfort, KY 40602-0718
(502) 564-3490
<http://www.sos.ky.gov>

Certificate of Existence

Authentication number: 153083
Visit <https://app.sos.ky.gov/ftshow/certvalidate.aspx> to authenticate this certificate.

I, Alison Lundergan Grimes, Secretary of State of the Commonwealth of Kentucky, do hereby certify that according to the records in the Office of the Secretary of State,

KENTUCKY POWER COMPANY

is a corporation duly incorporated and existing under KRS Chapter 14A and KRS Chapter 271B, whose date of incorporation is July 21, 1919 and whose period of duration is perpetual.

I further certify that all fees and penalties owed to the Secretary of State have been paid; that Articles of Dissolution have not been filed; and that the most recent annual report required by KRS 14A.6-010 has been delivered to the Secretary of State.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Official Seal at Frankfort, Kentucky, this 21st day of July, 2014, in the 223rd year of the Commonwealth.



Alison Lundergan Grimes

Alison Lundergan Grimes
Secretary of State
Commonwealth of Kentucky
153083/0028317

EXHIBIT 2

Coal Contract Assignments from Kentucky Power to APCo
Resulting from Barge Unloader Outage at the Mitchell Plant

Barge #	Contract	Contract Price	Argus 04/30/2014 Market Price	Tonnage	Differential to Market	Demurrage Costs Avoided (@ \$100/day)	Net Benefit
AEP748	Tragigura AG	\$60.00	\$61.35	1,616.27	-\$2,181.96	\$3,700.00	\$1,518.04
AEP241	Trafigura AG	\$55.50	\$61.35	1,712.93	-\$10,020.64	\$3,600.00	-\$6,420.64
AEP101	RWE Trading Americas Inc.	\$60.00	\$61.35	1,693.85	-\$2,286.70	\$3,800.00	\$1,513.30
AEP763	RWE Trading Americas Inc.	\$60.00	\$61.35	1,578.10	-\$2,130.44	\$3,700.00	\$1,569.57
AEP829	RWE Trading Americas Inc.	\$60.00	\$61.35	1,566.65	-\$2,114.98	\$3,700.00	\$1,585.02
AEP912	RWE Trading Americas Inc.	\$60.00	\$61.35	1,542.97	-\$2,083.01	\$3,700.00	\$1,616.99
MEM480	RWE Trading Americas Inc.	\$60.00	\$61.35	1,663.68	-\$2,245.97	\$3,800.00	\$1,554.03
TOTAL				11,374.45	-\$23,063.69	\$26,000.00	\$2,936.31
Kentucky Power Ownership Share				5,687.23	-\$11,531.85	\$13,000.00	\$1,468.15

EXHIBIT 3



AEP-America's Energy Partner®

1 Riverside Plaza
Columbus, OH 43215

INTERNAL Assignment

AEP Confirmation Number: 03-00-14-003-APCO

Effective Date: April 30, 2014

Assignor: Kentucky Power Company
1 Riverside Plaza, 14th Floor
Columbus, OH 43215
Attn: Grant D. Circle
Phone: 614-716-6284
Cell Phone: 614-216-9195
Fax: 614-583-1627

Assignee: Appalachian Power Company
155 West Nationwide Boulevard
Columbus, OH 43215
Attn: Denzil L. Welsh
Phone: (614) 716-6116
Cell Phone: (614) 581-8831
Fax: (614) 583-1627

Effective April 30, 2014, Kentucky Power Company hereby assigns certain coal deliveries under AEP Purchase Order 03-00-14-003 to Appalachian Power Company for shipment to its Sporn Plant as provided below. The provisions contained in the Coal Purchase and Sale Agreement between Trafigura AG, and Kentucky Power Company dated January 31, 2014, shall govern this assignment.

Plant: Sporn

Delivery Point: FOB Buyer's barge at the Marmet Pool on the Kanawha River.

Product: Crushed, bituminous coal, partially washed, containing no synthetic fuels, substantially free from any extraneous material, with no intermediate sizes to be added or removed and otherwise meeting the specifications of this Confirmation.

Term: May 1, 2014 through May 31, 2014

Contract Quantity: 1712.93 Tons of Coal on barge AEP241

Contract Price: \$55.50 per ton fixed FOB barge at the Delivery Point, except as set forth hereafter in Quality Adjustments.

Quality Specifications: In accordance with ASTM standards as follows:

<u>Characteristic:</u>	<u>Contracted Half-Month:</u>	<u>Shipment Rejection Limit:</u>
Btu/lb:	12,000	11,750 minimum
Sulfur (%):	1.00	1.05 maximum
Moisture %:	10.00	10 maximum
Ash %:	13.50	13.50 maximum
Volatile Matter %:	30.00	30 minimum
Hardgrove Grindability:	41	38 minimum
Sizing	3 X 0 inches topsize nominal, with maximum 55% passing one quarter inch square wire cloth sieve to be determined on the basis of the primary cutter of the mechanical sampling system.	

AEP Confirmation Number: 03-00-14-003-APCO

Effective Date: April 30, 2014

Quality Adjustments:

- Per Purchase Order 03-00-14-003
- None
- Other _____

BTU Price Adjustment:

Price Adjustment (\$/ton of coal) = Price x [(Actual Btu/lb – Contracted Btu/lb) / Contracted Btu/lb]

Price adjustments shall be made to the nearest \$0.001 and calculated on a monthly weighted average.

Accepted:

Assignor:

Assignee:

Marguerite C. Mills
Signature

Marguerite C. Mills
Vice President
Kentucky Power Company

Date: July 14, 2014

*gmc
C. Mills
GOC
JSM*

Marguerite C. Mills
Signature

Marguerite C. Mills
Vice President
Appalachian Power Company

Date: July 14, 2014

*gmc
GOC
C. Mills
JSM*

INTERNAL Assignment

AEP Confirmation Number: 03-00-14-008-APCO

Effective Date: April 30, 2014

Assignor: Kentucky Power Company
1 Riverside Plaza, 14th Floor
Columbus, OH 43215
Attn: Grant D. Circle
Phone: 614-716-6284
Cell Phone: 614-216-9195
Fax: 614-583-1627

Assignee: Appalachian Power Company
155 West Nationwide Boulevard
Columbus, OH 43215
Attn: Denzil L. Welsh
Phone: (614) 716-6116
Cell Phone: (614) 581-8831
Fax: (614) 583-1627

Effective April 30, 2014, Kentucky Power Company hereby assigns certain coal deliveries under AEP Purchase Order 03-00-14-008 to Appalachian Power Company for shipment to its Sporn Plant as provided below. The provisions contained in the Coal Purchase and Sale Agreement between Trafigura AG, and Kentucky Power Company dated January 31, 2014, shall govern this assignment.

Plant: Sporn

Delivery Point: FOB Buyer's barge at any dock located between mileposts 300 and 316 on the Ohio River or any dock on the Big Sandy River.

Product: Crushed, sub-bituminous Coal, containing no synthetic fuels, substantially free from any extraneous material, with no intermediate sizes to be added or removed and otherwise meeting the specifications of this Confirmation.

Term: May 1, 2014 through May 31, 2014

Contract Quantity: 1616.27 Tons of Coal on barge AEP748

Contract Price: \$60.00 per ton fixed FOB barge at the Delivery Point, except as set forth hereafter in Quality Adjustments.

Quality Specifications: In accordance with ASTM standards as follows:

<u>Characteristic:</u>	<u>Contracted Half-Month:</u>	<u>Shipment Rejection Limit:</u>
Btu/lb:	12,000	11,750 minimum
Sulfur (%):	1.00	1.05 maximum
Moisture %:	10.00	10 maximum
Ash %:	13.50	13.50 maximum
Volatile Matter %:	30.00	30 minimum
Hardgrove Grindability:	41	38 minimum

Sizing 3 X 0 inches topsize nominal, with maximum 55% passing one quarter inch square wire cloth sieve to be determined on the basis of the primary cutter of the mechanical sampling system.

AEP Confirmation Number: 03-00-14-008-APCO

Effective Date: April 30, 2014

Quality Adjustments:

- Per Purchase Order 03-00-14-008
- None
- Other _____

BTU Price Adjustment:

Price Adjustment (\$/ton of coal) = Price x [(Actual Btu/lb - Contracted Btu/lb) / Contracted Btu/lb]

Price adjustments shall be made to the nearest \$0.001 and calculated on a monthly weighted average.

Accepted:

Assignor:

Assignee:

Marguerite C. Mills
Signature

Marguerite C. Mills
Vice President
Kentucky Power Company

Date: July 14, 2014

Handwritten initials:
GDC
JFZ

Marguerite C. Mills
Signature

Marguerite C. Mills
Vice President
Appalachian Power Company

Date: July 14, 2014

Handwritten initials:
GDC
JFZ

INTERNAL Assignment

AEP Confirmation Number: 03-00-14-005-APCO

Effective Date: April 30, 2014

Assignor: Kentucky Power Company
1 Riverside Plaza, 14th Floor
Columbus, OH 43215
Attn: Grant D. Circle
Phone: 614-716-6284
Cell Phone: 614-216-9195
Fax: 614-583-1627

Assignee: Appalachian Power Company
155 West Nationwide Boulevard
Columbus, OH 43215
Attn: Denzil L. Welsh
Phone: (614) 716-6116
Cell Phone: (614) 581-8831
Fax: (614) 583-1627

Effective April 30, 2014, Kentucky Power Company hereby assigns certain coal deliveries under AEP Purchase Order 03-00-14-005 to Appalachian Power Company for shipment to its Amos Plant as provided below. The provisions contained in the Coal Contract between RWE Trading Americas Inc. and Kentucky Power Company, dated March 10, 2014, shall govern this assignment.

Plant: Amos

Delivery Point: FOB Buyer's barge at Seller's delivery facility on the Ohio River between mileposts 306 and 317, or on the Big Sandy River.

Product: Crushed, bituminous coal, partially washed, containing no synthetic fuels, substantially free from any extraneous material, with no intermediate sizes to be added or removed and otherwise meeting the specifications of this Confirmation.

Term: April 30, 2014 through May 10, 2014

Contract Quantity: 8045.25 tons of Coal on barges AEP101, AEP763, AEP829, AEP912 and MEM480 (each barge shall constitute a "Shipment").

Contract Price: \$60.00 per ton fixed FOB barge at the Delivery Point, except as set forth hereafter in Quality Adjustments.

Quality Specifications: As-received basis in accordance with ASTM standards ("Standards") for each Shipment, as follows:

<u>Characteristic:</u>	<u>Contracted Half-Month:</u>	<u>Shipment Rejection Limit:</u>
Btu/lb:	12,000	11,750 minimum
Sulfur (%):	1.00	1.20 maximum
Moisture %:	10.00	10.00 maximum
Ash %:	13.50	13.50 maximum
Volatile Matter %:	30.00	30.00 minimum
Hardgrove Grindability:	41	38 minimum
Sizing	3 X 0 inches topsize nominal, with maximum 55% passing one quarter inch square wire cloth sieve to be determined on the basis of the primary cutter of the mechanical sampling system.	

AEP Confirmation Number: 03-00-14-005-APCO

Effective Date: April 30, 2014

Quality Adjustments:

- Per Purchase Order 03-00-14-005
- None
- Other _____

BTU Price Adjustment:

Price Adjustment (\$/ton of coal) = Price x [(Actual Btu/lb – Contracted Btu/lb) / Contracted Btu/lb]

Price adjustments shall be made to the nearest \$0.001 and calculated on a monthly weighted average.

Accepted:

Assignor:

Assignee:

Marguerite C. Mills
Signature

Marguerite C. Mills
Vice President
Kentucky Power Company

Date: July 14, 2014

*AMC
GDC
JST*

Marguerite C. Mills
Signature

Marguerite C. Mills
Vice President
Appalachian Power Company

Date: July 14, 2014

*AMC
GDC
JST*